MARKETING COMMUNICATION FOR PROFESSIONAL INVESTORS IN IT, DE, ES, LU, AT, PT, FR
Please refer to the Prospectus of the UCITS and to the KID before making any final investment decisions.

GENERALI INVESTMENTS

The bullish case for European fixed income

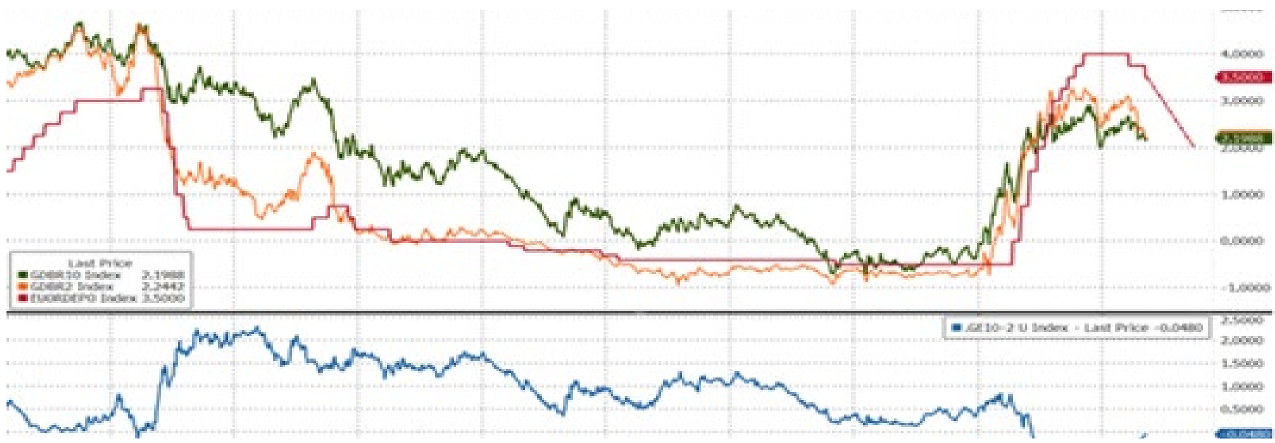
September 2024

Mauro VALLE, CFA
Head of Fixed Income and Fund Manager of the GIS Euro Bond range
- Over 25 years of experience
- AAA rated by Citywire[2]

Mauro Valle, Head of Fixed Income at Generali Asset Management, explains why he expects duration to maintain its bullish momentum for the final months of 2024, and why the short- to medium-term part of the yield curve should be a sweet spot for bond investors.

- Ten-year yields have fallen to their lowest levels of the year in both the US and the Eurozone.
- The decline in yields is likely to be more pronounced for short and medium-term maturities thanks to support from expected rate cuts.
- In an environment of clearly positive interest rates, the traditional negative correlation between equities and bonds - where equities decline and bonds rise - returns during periods of heightened volatility.
- Therefore a long-duration position provides a natural hedge for portfolios during risk-off phases in the market.

Chart 1: Bund yields fall while the 2-10 year spread converges[1]



Yields fall in the US and Eurozone

Ten-year yields have fallen to their lowest levels of the year in both the US and the Eurozone since the end of June, driven by mounting expectations of rate cuts by central banks, a broad macroeconomic slowdown, and declining inflation. In the US, the yield on 10-year Treasury bonds has dropped from 4.5% at the end of June to 3.6%, following weaker-than-expected labour market data. With the unemployment rate now at 4.2%, there are early signs that the US economy may be entering a more pronounced slowdown than previously anticipated, challenging the notion of a "soft landing." However, inflation appears to be easing as expected, with the rate dropping to 2.5% in August.

Federal Reserve cuts by 50 bps

The Fed decided to cut rates by 50 bps on September 18th, more than the consensus expected, delivering a sort of "insurance cut" to ensure a soft landing for the US economy. It considered the progress of the disinflationary trend and the weak signals from the labour market. Powell warned that 50 bps was not the new norm and that the Fed would be data dependent. The new economic projections show a marginal increase in unemployment (4.4%) and lower inflationary pressures (PCE 2.3%) for the year. The forecasts point to official rates of 4.5% at the end of 2024, 3.5% in 2025, and a final rate of around 3.0%. But the market is even more aggressive: three cuts are expected by December and 150 bps cuts in 2025, for a total of 225bps.

The future path of official rates is quite difficult to forecast, depending on economic data (soft vs hard landing), geopolitical risks, and the presidential elections. The US 10-year rate, which stood at 3.6% before the Fed meeting, discounting the start of the easing cycle, is unlikely to fall below 3.5% in the coming weeks, barring any negative surprises. For the time being, we consider the 3.7% - 3.8% range to be neutral for 10-years yields, pending the next round of economic data.

Could the ECB accelerate easing next year?

As anticipated, the European Central Bank (ECB) lowered its official rates by 25 basis points during its September meeting. However, the ECB refrained from providing clear guidance on future rate decisions, reiterating its data-dependent, meeting-by-meeting approach. In its revised inflation outlook, the ECB maintained its projection of inflation converging to 2% but only in the second half of 2025. Meanwhile, growth forecasts were downgraded, aligning with data showing a slowdown in the Eurozone's economy, particularly in the German manufacturing sector.

The ECB has signalled its intention to skip an October cut, despite lower oil prices and declining wage trends but there is an increasing probability that the ECB could accelerate the pace of easing at the next meeting, after the Fed opts for more aggressive cuts, such as 50 basis points. In this scenario, we expect the Bund rate to continue to move between 2.1% and 2.3%.

[1] Source: Bloomberg as at 19 September 2024. The presented indices are not referred to in the Prospectus and used for illustration purposes only. The relevance of Italy Generic Govt 10Y Yield: The index serves as a benchmark for other interest rates in the economy, influencing borrowing costs for businesses and consumers within Italy. There are important limits to the comparison. The past performance of the indices do not predict current or future performance of the Fund.
[2] Source of the rating: Citywire. A rating is drawn for illustration only and is subject to change. For more information about the rating (methodology, universe taken) please refer to the following link: https://citywire.com/americas/manager/mauro-valle/d5145

Short- to medium-term bonds should now benefit

In the final quarter of the year, expectations point to stable, lower interest rates. However, the decline in yields is likely to be more pronounced for short and medium-term maturities, thanks to the support that this part of the curve will receive from the expected cuts. In our view, a suitable bond strategy should focus on maintaining adequate duration exposure while positioning appropriately along the yield curve, as the curve may consolidate its positive slope in the coming months after a long period of inversion.

> **In the final quarter of the year, expectations point to stable, lower interest rates. However, the decline in yields is likely to be more pronounced for short and medium-term maturities**
>
> ”

Investors should also consider that in an environment of clearly positive interest rates, the traditional negative correlation between equities and bonds - where equities decline and bonds rise - returns during periods of heightened volatility. Therefore, a long-duration position provides a natural hedge for portfolios during risk-off phases in the market.

Investment grade remains an attractive diversifier

A similar strategy can be applied to portfolios investing in corporate bonds. A focus on the correct duration positioning can mitigate the negative effects of widening credit spreads, which tend to occur during periods of market risk aversion. August's market volatility, for example, saw spreads widen, but the impact of these wider spreads is likely to be softened by lower rates.

Our stance on corporate bonds remains neutral/positive. While credit spreads may be subject to volatility, particularly in investment grade bonds, this segment remains attractive, especially as rate cuts are expected in the coming quarters. Given the compressed level of credit spreads during this period, we prefer to work on the risk profile of credit portfolios, reducing the beta or, in other words, reducing riskier positions, rather than reducing credit exposure.

How is the Euro Bonds strategy positioned in light of recent rate cuts?

In the Euro Bonds strategy, we closed our long relative duration and moved to a neutral stance ahead of the ECB meeting, with Bund rates around 2.15%. We shifted our long German Bund exposure to underweight, while maintaining our short French OATs exposure, as the political scenario is still quite complex and fears about the ability to implement adequate fiscal policies are still present. We increased our long Italian BTP exposure as we are more confident that the BTP/Bund spread will continue to move in the range of 120- 150 bps. Our long positions in Spain, EU, and Greece remain unchanged. We maintained our long positions in short to medium maturities, underweighting the 15+ year segment of the yield curve, and bringing our 10-year maturities closer to a neutral level.

We believe that a bond strategy with adequate duration exposure and overweighting the middle maturities of the yield curve can deliver strong returns in the final months of 2024.

Why choose the GIS Euro Bonds strategy?

For investors seeking diversification and a hedge against volatility and equity exposure, euro government bonds can be considered a defensive, risk-adjusted investment over a medium- to long-term horizon. To optimize risk-return, the Euro Bonds strategy has active duration management and a dynamic allocation between countries, with a preference to be long Italian BTPs and Spanish government bonds.

> **For investors seeking diversification and a hedge against volatility and equity exposure, euro government bonds can be considered a defensive, risk-adjusted investment over a medium- to long-term horizon**
>
> ”

This diversification through peripheral European bond exposure and the nimbleness of the strategy to change as the facts change have enabled the sub-funds to consistently outperform their benchmarks with low volatility throughout the negative-yielding and volatile environment of the past few years.

We leverage three key investment pillars to actively manage the portfolios: carry, country allocation and curve allocation. We believe this combination, plus ESG integration and a macro overlay strategy via euro bond listed futures, allows us to gain a critical edge over the market.

GIS EURO BOND FUND RANGE[3]

Generali Investments SICAV (GIS)	GIS Euro Bond [factsheet]	GIS Euro Bond 1-3 Years [factsheet]	GIS Euro Short Term Bond [factsheet]
Fund manager	Mauro Valle	Mauro Valle	Mauro Valle
ISIN (Eur B Acc.)	LU0145476148	LU0396183112	LU0145484910
AUM	€ 2,475.04M as of 30/08/2024	€ 1,078.34M as of 30/08/2024	€ 622.41M as of 30/08/2024
Inception date	2 April 2002	5 November 2008	2 April 2002
Benchmark	JPM EMU GOVERNMENT	JPM EMU GOVERNMENT 1-3Y (TR)	€STR
Funds currency	Euro	Euro	Euro
Domicile	Luxembourg	Luxembourg	Luxembourg
Entry / exit charge	Not Applied	Not Applied	Not Applied
Ongoing charge	0.60%	0.30%	0.30%
Management fees	0.40%	0.15%	0.15%
Performance fees	Not applied	Not applied	Not applied
Management company	Generali Investments Luxembourg S.A.	Generali Investments Luxembourg S.A.	Generali Investments Luxembourg S.A.
Investment manager	Generali Asset Management Società di gestione del risparmio	Generali Asset Management Società di gestione del risparmio	Generali Asset Management Società di gestione del risparmio
Risk level SRI	3/7 [Other significant risks not taken into consideration in this indicator include the following: Credit risk, Liquidity risk.	2/7 [Other significant risks not taken into consideration in this indicator include the following: Credit risk, Liquidity risk.	2/7 [Other significant risks not taken into consideration in this indicator include the following: Credit risk, Liquidity risk.
SFDR[4]	Article 8	Article 8	Article 8

[3] Holdings / Allocations subject to change. [4] Sustainable Finance Disclosure Regulation (SFDR). Source: Generali Asset Management Società di gestione del risparmio, data as of the 30th of August 2024. This document does not constitute an investment advice to buy or sell the presented securities. The percentage of entry and exit fees is based on the NAV. Several other costs apply and differ by share class. There is no guarantee that an investment objective will be achieved or that a return on capital will be obtained. Please refer to the following page for more information about the risks.

Euro Bond - The objective of the Fund is to outperform its Benchmark investing in quality debt securities denominated in Euro. The Fund shall invest at least 70% of its net assets in debt securities denominated in Euro with Investment Grade Credit Rating. The Fund is actively managed and references the Benchmark (J. P. Morgan EMU Index) by seeking to outperform it. There are no restrictions on the extent to which the Fund's portfolio and performance may deviate from the ones of the Benchmark. Main costs (not an exhaustive list as per the KIDs dated 1 January 2024): (Illustrative class: ISIN LU0145476148 – countries of registration AT, CH, CZ, DE, ES, FR, GB, IT, LU, NL, PT, SG, SK). Entry costs: none. Exit costs: none. The percentage of entry and exit fees is based on the NAV. Management fees and other administrative costs: 0.6% per year of the value of your investment (consisting of 0.4% max. of Management fees per year). This is an estimate based on actual costs over the last year. Transaction costs: 0.1% per year of the value of your investment. This is an estimate of the costs incurred when buying and selling the underlying investments for the product. Performance fee: none. Valuation of the Net Asset Value (NAV): Daily.

Euro Bond 1-3 Years - The objective of the Fund is to outperform its Benchmark investing in quality debt securities denominated in Euro resulting in a weighted average portfolio maturity ranging from 1 to 3 years. The Fund shall invest at least 70% of its net assets in debt securities denominated in Euro with Investment Grade Credit Rating. The Fund is actively managed and references the Benchmark (J.P. Morgan EMU 1-3 Years Index) by seeking to outperform it. There are no restrictions on the extent to which the Fund's portfolio and performance may deviate from the ones of the Benchmark. Main costs (not an exhaustive list as per the KIDs dated 1 January 2024): (Illustrative class: ISIN LU0396183112 – countries of registration AT, CH, CZ, DE, ES, FR, GB, IT, LU, NL, PT, SK). Entry costs: none. Exit costs: none. The percentage of entry and exit fees is based on the NAV. Management fees and other administrative costs: 0.3% per year of the value of your investment (consisting of 0.15% max. of Management fees per year). This is an estimate based on actual costs over the last year. Transaction costs: 0.1% per year of the value of your investment. This is an estimate of the costs incurred when buying and selling the underlying investments for the product. Performance fee: none. Valuation of the Net Asset Value (NAV): Daily.

Euro Short Term Bond - The objective of the Fund is to outperform its Benchmark investing in quality short term debt securities denominated in Euro. The Fund shall invest at least 70% of its net assets in debt securities and money market instruments denominated in Euro. The Fund is actively managed and references the Benchmark (€STR Index) by seeking to outperform it. There are no restrictions on the extent to which the Fund's portfolio and performance may deviate from the ones of the Benchmark. Main costs (not an exhaustive list as per the KIDs dated 1 January 2024): (Illustrative class: ISIN LU0145484910 – countries of registration AT, CH, CZ, DE, ES, FR, GB, IT, LU, NL, PT, SK). Entry costs: none. Exit costs: none. The percentage of entry and exit fees is based on the NAV. Management fees and other administrative costs: 0.3% per year of the value of your investment (consisting of 0.15% max. of Management fees per year). This is an estimate based on actual costs over the last year. Transaction costs: 0.1% per year of the value of your investment. This is an estimate of the costs incurred when buying and selling the underlying investments for the product. Performance fee: none. Valuation of the Net Asset Value (NAV): Daily.

Risks of the Funds (non-exhaustive list): Credit risk - Derivative risk, Sustainable finance risk, Risk of capital loss: This is not a guaranteed product. Investors may risk losing part or all of their initial investment. This is not an exhaustive list of risks and costs. Other risks and costs may apply and are subject to change. For more information on risks, maximum costs, and the frequency of cost calculations, please refer to the Prospectus and KID. The funds promote environmental or social characteristics under Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"). They do not have sustainable investments as their objective. Please read the Prospectus, its SFDR appendix and the SFDR website product disclosures to consider all characteristics, objectives, binding elements of the selection process and methodological limits. A summary of the SFDR website product disclosures are available at: www.generali-investments.lu/products/LU0145476148 for Euro Bond, www.generali-investments.lu/products/LU0396183112 for Euro Bond 1-3 Years and www.generali-investments.lu/products/LU0145484910 for Euro Short Term Bond. The future performance is subject to taxation, which depends on the personal situation of each investor and which may change in the future.